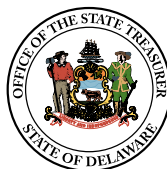




NEWSLETTER | Q3 2015

Who Doesn't Want a Good Value?



KENNETH A. SIMPLER
STATE TREASURER



WHO DOESN'T WANT A GOOD VALUE?

I find that question brings us together. It's easy to fall into our political divide of too much spending (Republican) vs. too little revenue (Democrat) when we argue over just one side of the equation.

There's far more concurrence, and curiosity, when we look at the nexus: what are we getting for our money?

Sadly, the answer in Delaware is "not enough." I pointed out in my last letter to you that our largest areas of general fund programmatic spending: education, healthcare and safety are all getting mediocre to poor outcomes when measured against the achievements of our 49 sister states.

If we were miserly with what we spent in these areas, we might conclude that was an acceptable political bargain: spend a little, get a little. However, I also pointed out that when you combine state and local spending, Delaware ranks as the 6th highest state in per capita expenditures, a level that is 20% greater than the national average.

Why are we spending so much more but getting relatively little in our core service areas?

That's a question that I hope is being examined closely by the Governor's newly-formed committee on expenditures.

I am not part of that panel, but if it's anything like the companion council on revenues on which I served this past spring, the members will proceed by delving deeply into each of our major programmatic spending areas. I look forward to their findings.

In the meantime, however, I want to offer what I suspect are a different set of insights into how we might get more bang for our buck out of state government. These ideas arise from the direct experience that I have had managing a state agency and specifically from the iterations I have gone through in contracting for outside services and hiring and managing personnel.

My concern is with the rules that govern our operations. Just as I have suggested previously that we have to rethink our revenue portfolio and the fiscal controls that we have in place to manage our budget, we also need to examine and adjust the architecture of our personnel and procurement systems.

This might sound dry and esoteric, but let me explain the magnitude of what is at stake.

ANOTHER WAY OF LOOKING AT OUR SPENDING

Earlier, I noted that when we talk about spending we generally do so by program area: 40% of our roughly \$4 billion general fund budget on education, 30% in healthcare, 13% for safety (i.e., courts, cops and corrections). That's an accurate way of looking at our major spending programmatically.

If you think about getting more value out of government in programmatic terms, then the obvious conclusion is that we've got to get better in those areas.

We need to raise our student achievement levels, improve our population's health outcomes and lower our rates of violent crime using the resources we currently allocate to those services more effectively and more efficiently.

The challenge in all these cases is that there is much disagreement over how to "do" education, healthcare and safety better.

Delaware is right now in a crisis in each of these areas, with many different and mutually exclusive views held by our policy leaders. That we must rise to the challenge of solving each is not in question. That the path to reform of any will be straight or short is less certain.

However, there's another equally accurate way of looking at our general fund spending that might yield results with less contention and greater speed: categorically.

If the "big three" in the general fund spending by program are education, healthcare and safety, then the corresponding "dynamic duo" by category are personnel and contractors.

Personnel expenses comprise a little more than half of all state spending, and contracting costs are in the neighborhood of 15%.

Overall, that's roughly two-thirds of our total spending on employees and contractors. In other words, this is where the money is.

And, note two other advantages of thinking categorically as opposed to programmatically:

First, the solutions found by examining expenses categorically apply universally across all of government and are not department, agency or program specific. In other words, there's tremendous scale to any ideas that can be leveraged across the whole enterprise when talking about people and procurement.

Second, the rules of how we better manage personnel and engage third parties are easier to implement than the corresponding "fixes" for education, healthcare and safety.

Changes in the areas of personnel and contracting need not be radical; the intent of these rules is generally sound, their application simply needs to be modified to have a positive and meaningful impact on our productivity.

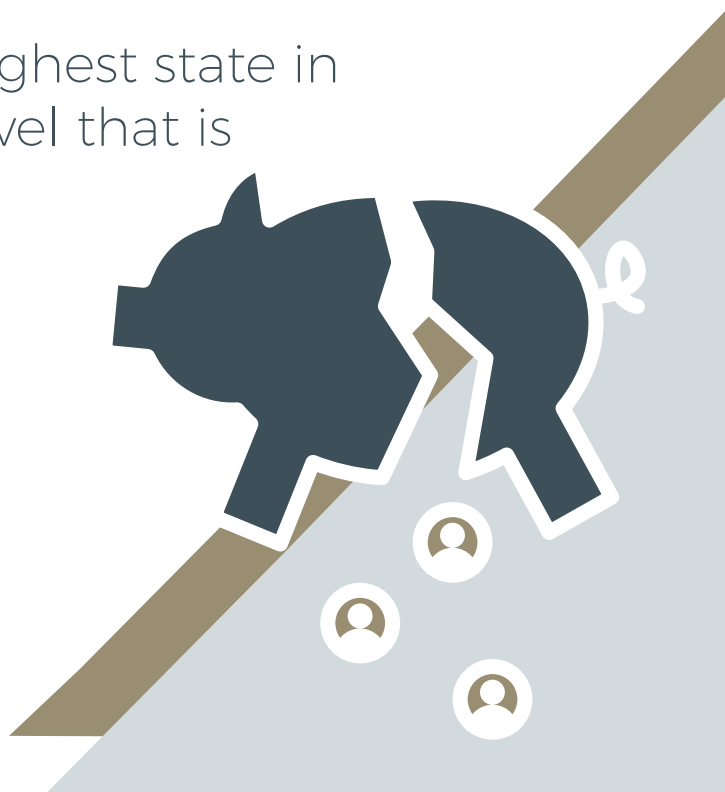
If we are going to try to wring more efficiency out of government in the short run, there's good reason to take a hard look at how we make our people more productive and our contracts more valuable.

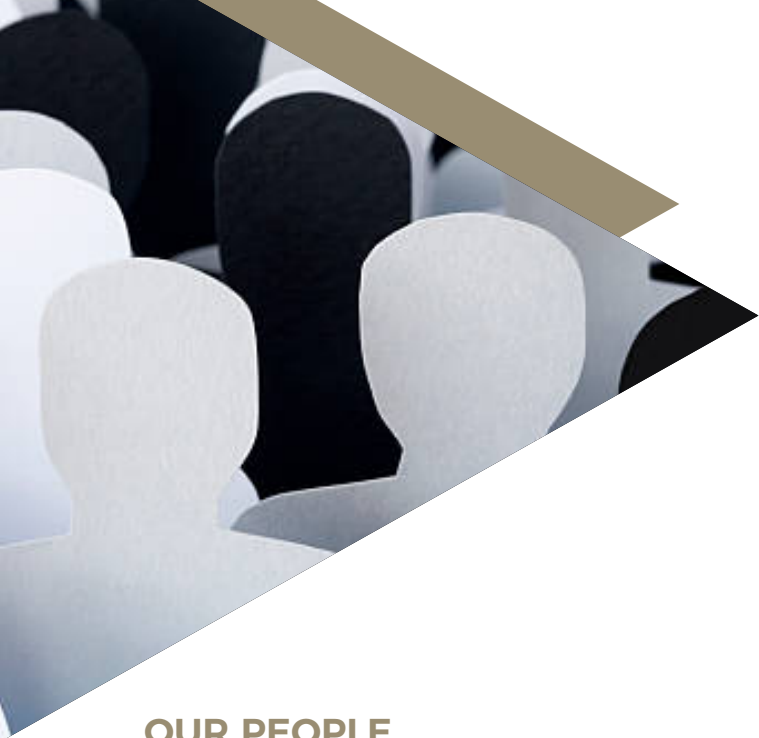
I'll offer a few thoughts on each based on what I've seen and tried in managing my own office these past three calendar quarters.

Delaware ranks as the 6th highest state in per capita expenditures, a level that is

> 20%

above the national average.





OUR PEOPLE

Let's take the case of our personnel rules first. The civil service or "merit system" as it is generally referred to is founded on several ideas: that the "spoils system" is not a good way to run a government; that the bureaucracy should be managed by an expert and largely non-partisan body; and that advancement and opportunity should be determined by experience and competency as opposed to any form of favoritism. I agree with all of these concepts, in concept.

However, the rules also have a pernicious side. They do not lend themselves to rewarding people for exceptional work, challenging them with new opportunities that will help them build their skills or incenting them to consider how different ways of doing things might improve operational efficiencies.

The system also makes it very difficult to challenge those who underperform or eliminate positions or work that are outdated or no longer critical to the operations of the organization. Finally, the current framework for hiring new people is a laborious and time-consuming task that encourages a mindset of filling empty seats as opposed to examining the workflow needs of the office as a whole.

In short, the civil service system tends to reinforce the status quo and frustrate material change, even if that change would benefit all stakeholders.

However, if we have a government that needs to get a lot more efficient to justify the extra 20% that we expend over the average state and fully half of that spend is on our people, then the rules that govern how we make our people more valuable need to be reformed, and a better balance among our objectives must be struck.

Here are some modest ideas:

- 1 Agency heads need the power to bring in a few more people from outside their office who will share their tenure and can bring different experience to bear. I have a diverse agency with a number of very discrete and complex functions, but my appointments are limited to just two positions: my personal assistant and my deputy.

Otherwise, I am bound by the personnel decisions of my elected predecessors. If I am intended to make meaningful organizational change and deliver higher value during a four-year term, I need a few more opportunities to build the team of my choosing.

- 2 Managers need modest powers to promote and demote and otherwise provide pecuniary carrots and sticks. Job security cannot be synonymous with job stagnation. If someone outperforms for me, I want to be able to offer him or her more than a pat on the back and an "attaboy".

Conversely, if someone is not meeting expectations, I need to show them "tough love" — tolerating underperformance is damaging not just to the institution but also to the individual.

- 3 We need to modify the rules hampering labor mobility to allow people to move more freely where they can deliver the most value. Our system of job descriptions, position reclassifications, employment postings, candidate screenings and personnel interviews has become too cumbersome. It disqualifies and discourages many talented people from the private sector from considering public service.

Its rigidity also limits people within the public system from making lateral moves that would benefit both them and the organization. Moreover, the system leads managers to settle on serial hiring for the same duties as opposed to actively evaluating the needs of the organization — an outcome that benefits no one.

CONTRACTING

Like the system that governs our personnel recruitment, management, development and payment, the rules that have grown up around our third party procurement are well intentioned.

Our contracting regime is designed to ensure both transparency and fairness. In my experience it achieves those outcomes but at unintended cost.

In general, any contract with a value in excess of \$50,000 must go out to public bid, or RFP (request for proposal). To do this, the basic form of the RFP must be adapted to the current engagement, the scope of services and evaluation criteria designed, a lengthy questionnaire composed and a variety of attachments and appendices prepared.

Prior to issue, the RFP must be reviewed and approved by the State's procurement, IT, legal and budget personnel, and, in many cases, an oversight board must also sign off.

The RFP must then be put out to bid for a prescribed period of time, during which potential bidders are allowed to submit questions and formal responses must be catalogued and supplied to all bidders by the issuing office.

Once the RFP responses are received, a specially formed selection committee must review all responses and rank the bidders. Finalists are interviewed and scored by the same committee and often times an oversight board must ultimately approve the committee's selection before a contract can be awarded.

You should conclude from the foregoing summary that the RFP procedure is both time-consuming (easily requiring hundreds of man hours) and lengthy (generally taking 3-6 months). That said, there is nothing inherently illogical or wrong-headed with this process. That is not to say there are not unintended and unfortunate "side effects."

The time and energy required to undertake RFPs means that most agency staff are not inspired to effect them any more frequently than responsibly required (if then).

Second, and akin to our personnel hiring process, the RFP system leads to a serial as opposed to holistic approach to contracting.

Third, contracting in the open for existing engagements effectively shows bidders "our hand" and reduces the value we might otherwise get from competition for our business.

Finally, the very open and lengthy process of conducting an RFP invites significant and generally not disinterested political involvement.

Again, here are a few thoughts:

- 1 Require agencies to develop and publish on their website an RFP schedule for all third party engagements that ensures regular rebidding and periodic evaluation of groups of contracts.

Contracting infrequently and piecemeal is not a likely path to substantially higher value. We need systems that ensure regular review of the entire body of related contracted work and that ideally incent inter-agency collaboration where engagements affect more than one department.

- 2 Pricing information in current contracts should be subject to strict confidentiality during the contract term (not to exceed a period of five years), but only where an independent board has provided review and approval.

This would limit but not unduly infringe on the Freedom of Information Act, and would not affect the reporting of expenditures in the State's online checkbook.

It would, however, provide contracting parties with less insight into the terms to which the State is likely to acquiesce and produce a more competitive environment for bidding ongoing business.

- 3 We must shorten the time period and streamline the RFP process. At this time, I don't have enough experience to say how, but I suspect others do.

I am not advocating a Blue Ribbon Panel of experts, but some inter-agency task force of actual users could be convened to discuss best practices and common complaints and consider alternatives, exemptions and modifications to this rational but cumbersome process.



WRAPPING UP

As I hope I've made clear above, there is nothing nefarious or ill-intentioned in our personnel and procurement systems.

The former aim at creating a competent meritocracy that is politically agnostic, and the latter seek to insure third party arrangements are arms-length and fairly-awarded. And, for the most part, they do a good job of achieving those goals.

As any economist will tell you, however, decisions are made at the margin, and that is where we need to examine and challenge the strictures of our current regimes.

We need not rewrite these rules wholesale, but the sheer magnitude of their import — two-thirds of our collective spending, as well as their scope — governing every agency of our state government, compels a hard and holistic look at the impediments such systems impose on the efficacy and efficiency of our operations.

Unlocking more of the potential of our people and our contracts will not relieve us from the task of getting better results in our key programmatic service areas: education, healthcare and safety.

These efforts, however, are complimentary, and reinforcing. The theme both programmatically and categorically is the same: we simply need to get better.

After all, everyone wants a good value.

Yours,

A handwritten signature in black ink, appearing to read "Ken", with a stylized flourish above the name.

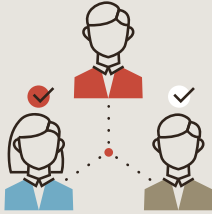
Ken Simpler, Delaware State Treasurer



State employees must be incented to deliver more value with employee performance systems that reward quantifiable improvement over the status quo and empower managers to hire and fire.



Contractors must be incented to deliver more value. Our contracting processes need to be revisited to take less time, foster competition, and provide less insight into the terms to which the State is likely to acquiesce.



Across education, healthcare and safety, roughly two-thirds of our total state spending is on employees and contractors. Focusing our efforts categorically on these labor costs can foster improvements more quickly across the board.

ADDRESSING DELAWARE'S VALUE PROBLEM



The challenge in all these cases is that there is much disagreement over how to “do” education, healthcare and safety better.



Our outcomes in our major spending buckets — healthcare, education, safety and infrastructure — are not commensurate with our investment.



Our state and local governments' per capita spending is already among the highest in the nation — greater than 43 other states and 20% above the U.S. average.

START



Read Ken's newsletters online or sign up to receive them via email at treasurer.delaware.gov.

**Blueprint for a Bargain:
Let's Listen and Act**

**Bipartisan Budget Accord:
Framing a Grand Bargain**

**Creating a Performance-
Driven Culture:
A New Order of Things**

**Retirement Reforms:
A Bipartisan Success Story**

**Caring About the State's
Healthcare Plan**

**A Whole Lot of Alliteration:
Spending Sustainability,
Sufficiency and Soundness**

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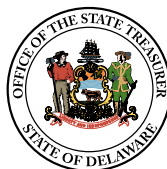
**The Budget Trifecta:
Revenue Stability, Spending
Discipline and Value Creation**

**First (and Lasting) Impressions:
My First 100 Days**

**Consider inviting Ken to address
these topics at your organization's
next meeting or event.**

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